

**Report of the
PUBLIC EMPLOYEE RETIREMENT
ADMINISTRATION COMMISSION
on the Examination of the
Watertown
Contributory Retirement System
For the Three Year Period
January 1, 1998 - December 31, 2000
PERAC 00: 08-091-27**

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November 18, 2002

The Public Employee Retirement Administration Commission has completed an examination of the **Watertown** Retirement System pursuant to G.L. c. 32, § 21. The examination covered the period from January 1, **1998** to December 31, **2000**. This audit was conducted in accordance with the accounting and management standards established by the Public Employee Retirement Administration Commission in regulation 840 CMR 25.00. Additionally, all supplementary regulations approved by PERAC and on file at PERAC are listed in this report.

In our opinion, the financial records and management functions are being performed in conformity with the standards established by the Public Employee Retirement Administration Commission with the exception of those noted in the findings presented in this report.

We commend the **Watertown** Retirement Board for the exemplary operation of the system.

In closing, I acknowledge the work of examiner Richard Ackerson who conducted this examination and express appreciation to the Board of Retirement and staff for their courtesy and cooperation.

Sincerely,

Joseph E. Connarton
Executive Director

Watertown Retirement System

EXPLANATION OF FINDINGS AND RECOMMENDATIONS

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2000

1. Refunds

The review of refunds included a sample of twenty refunds from the three-year audit period. There were five errors found in the sample selection.

In two cases, the member left involuntarily and 100% of the interest **was not** refunded. Pursuant to Chapter 32, § 11 members leaving public service involuntarily are entitled to 100% of the interest earned regardless of the number of years of creditable service.

The other three cases involved the refund of interest accrued beyond the first two years following termination. Chapter 32, § 22 (6)(d) limits the amount of interest that can be refunded to the first two years from the end of the month immediately preceding the date of termination of service.

The errors were a result of the administrative staff not being familiar with all the rules relative to refunds.

Recommendation

Chapter 32, §§ 11 & 22 should be reviewed to ensure all rules governing the refund of interest earned on accumulated deductions are understood and followed.

Board Response

With respect to the audit findings and recommendations, the refunds discovered as having been issued refunding the proper amount of interest have been addressed by the Board. In addition, the rules governing the refund of interest earned on accumulated deductions have been reviewed by the administrative staff.

Final Determination

PERAC auditors will follow up in 6 (six) months to ensure appropriate action has been taken on all findings.

Watertown Retirement System

STATEMENT OF LEDGER ASSETS AND LIABILITIES

**FOR THE THREE YEAR PERIOD BEGINNING JANUARY 1, 1998
AND ENDING DECEMBER 31, 2000**

FOR THE PERIOD ENDING DECEMBER 31,			
ASSETS	2000	1999	1998
Cash	\$405,237	\$483,233	\$24,053
Short Term Investments	851,088	3,870,849	1,376,506
Fixed Income Securities (at book value)	18,478,402	11,685,155	19,489,011
Equities	14,784,814	15,775,578	18,826,921
Pooled Short Term Funds	0	0	0
Pooled Domestic Equity Funds	14,817,401	22,403,173	8,470,761
Pooled International Equity Funds	8,314,570	9,092,438	6,173,011
Pooled Global Equity Funds	0	0	0
Pooled Domestic Fixed Income Funds	0	0	0
Pooled International Fixed Income Funds	3,009,438	0	0
Pooled Global Fixed Income Funds	0	0	0
Pooled Alternative Investment Funds	1,575,000	0	0
Pooled Real Estate Funds	4,528,805	4,046,998	2,878,742
Pooled Domestic Balanced Funds	0	0	0
Pooled International Balanced Funds	0	0	0
PRIT Cash Fund	0	0	0
PRIT Core Fund	0	0	0
Interest Due and Accrued	271,534	164,256	250,661
Accounts Receivable	773,643	97,533	453,157
Accounts Payable	(1,000,105)	(133,416)	(1,926,107)
TOTAL	<u>\$66,809,826</u>	<u>\$67,485,797</u>	<u>\$56,016,717</u>
FUND BALANCES			
Annuity Savings Fund	\$14,730,227	\$13,991,403	\$12,932,831
Annuity Reserve Fund	6,833,217	6,383,059	6,528,334
Pension Fund	7,339,124	8,998,079	9,726,703
Military Service Fund	8,344	8,173	7,997
Expense Fund	0	0	0
Pension Reserve Fund	37,898,913	38,105,083	26,820,851
TOTAL	<u>\$66,809,826</u>	<u>\$67,485,797</u>	<u>\$56,016,717</u>

Watertown Retirement System

STATEMENT OF CHANGES IN FUND BALANCES

**FOR THE THREE YEAR PERIOD BEGINNING JANUARY 1, 1998
AND ENDING DECEMBER 31, 2000**

	Annuity Savings Fund	Annuity Reserve Fund	Pension Fund	Military Service Fund	Expense Fund	Pension Reserve Fund	Total All Funds
Beginning Balance (1998)	\$12,086,733	\$6,337,565	\$10,690,357	\$7,809	\$0	\$24,727,617	\$53,850,082
Receipts	1,729,113	192,741	5,305,484	187	413,503	2,057,786	9,698,814
Interfund Transfers	(736,972)	701,524	0	0	0	35,448	0
Disbursements	(146,043)	(703,497)	(6,269,138)	0	(413,503)	0	(7,532,180)
Ending Balance (1998)	12,932,831	6,528,334	9,726,703	7,997	0	26,820,851	56,016,717
Receipts	1,800,592	191,904	5,512,778	176	405,471	11,279,763	19,190,684
Interfund Transfers	(356,923)	352,454	0	0	0	4,469	0
Disbursements	(385,098)	(689,633)	(6,241,402)	0	(405,471)	0	(7,721,604)
Ending Balance (1999)	13,991,403	6,383,059	8,998,079	8,173	0	38,105,083	67,485,797
Receipts	1,952,104	198,047	5,188,576	172	515,561	(210,277)	7,644,183
Interfund Transfers	(1,010,006)	1,005,900	0	0	0	4,107	0
Disbursements	(203,273)	(753,789)	(6,847,531)	0	(515,561)	0	(8,320,154)
Ending Balance (2000)	<u>\$14,730,227</u>	<u>\$6,833,217</u>	<u>\$7,339,124</u>	<u>\$8,344</u>	<u>\$0</u>	<u>\$37,898,913</u>	<u>\$66,809,826</u>

Watertown Retirement System

STATEMENT OF INCOME

**FOR THE THREE YEAR PERIOD BEGINNING JANUARY 1, 1998
AND ENDING DECEMBER 31, 2000**

	FOR THE PERIOD ENDING DECEMBER 31,		
	2000	1999	1998
Annuity Savings Fund:			
Members Deductions	\$1,468,140	\$1,354,400	\$1,266,380
Transfers from other Systems	145,173	94,213	136,488
Member Make Up Payments and Redeposits	59,183	75,377	49,225
Investment Income Credited to Member Accounts	279,608	276,602	277,020
Sub Total	<u>1,952,104</u>	<u>1,800,592</u>	<u>1,729,113</u>
Annuity Reserve Fund:			
Investment Income Credited Annuity Reserve Fund	<u>198,047</u>	<u>191,904</u>	<u>192,741</u>
Pension Fund:			
3 (8) (c) Reimbursements from Other Systems	49,760	52,568	53,268
Received from Commonwealth for COLA and Survivor Benefits	614,816	846,210	666,216
Pension Fund Appropriation	4,524,000	4,614,000	4,586,000
Sub Total	<u>5,188,576</u>	<u>5,512,778</u>	<u>5,305,484</u>
Military Service Fund:			
Contribution Received from Municipality on Account of Military Service	0	0	0
Investment Income Credited Military Service Fund	<u>172</u>	<u>176</u>	<u>187</u>
Sub Total	<u>172</u>	<u>176</u>	<u>187</u>
Expense Fund:			
Expense Fund Appropriation	0	0	0
Investment Income Credited to Expense Fund	<u>515,561</u>	<u>405,471</u>	<u>413,503</u>
Sub Total	<u>515,561</u>	<u>405,471</u>	<u>413,503</u>
Pension Reserve Fund:			
Federal Grant Reimbursement	39,317	13,706	0
Pension Reserve Appropriation	0	0	0
Interest Not Refunded	1,864	2,207	963
Excess Investment Income	<u>(251,457)</u>	<u>11,263,849</u>	<u>2,056,824</u>
Sub Total	<u>(210,277)</u>	<u>11,279,763</u>	<u>2,057,786</u>
TOTAL RECEIPTS	<u>\$7,644,183</u>	<u>\$19,190,684</u>	<u>\$9,698,814</u>

Watertown Retirement System

STATEMENT OF DISBURSEMENTS

**FOR THE THREE YEAR PERIOD BEGINNING JANUARY 1, 1998
AND ENDING DECEMBER 31, 2000**

FOR THE PERIOD ENDING DECEMBER 31,			
	2000	1999	1998
Annuity Savings Fund:			
Refunds to Members	\$125,352	\$137,805	\$28,007
Transfers to other Systems	<u>77,920</u>	<u>247,293</u>	<u>118,036</u>
Sub Total	<u>203,273</u>	<u>385,098</u>	<u>146,043</u>
Annuity Reserve Fund:			
Annuities Paid	711,495	671,268	667,695
Option B Refunds	<u>42,294</u>	<u>18,365</u>	<u>35,802</u>
Sub Total	<u>753,789</u>	<u>689,633</u>	<u>703,497</u>
Pension Fund:			
Pensions Paid			
Regular Pension Payments	3,986,891	3,580,175	3,586,946
Survivorship Payments	441,610	409,219	378,622
Ordinary Disability Payments	148,229	147,038	146,167
Accidental Disability Payments	1,556,926	1,418,846	1,498,361
Accidental Death Payments	464,085	444,209	419,113
Section 101 Benefits	154,871	144,775	142,343
3 (8) (c) Reimbursements to Other Systems	94,919	97,141	97,586
State Reimbursable COLA's Paid	0	0	0
Chapter 389 Beneficiary Increase Paid	<u>0</u>	<u>0</u>	<u>0</u>
Sub Total	<u>6,847,531</u>	<u>6,241,402</u>	<u>6,269,138</u>
Military Service Fund:			
Return to Municipality for Members Who			
Withdrew Their Funds	<u>0</u>	<u>0</u>	<u>0</u>
Expense Fund:			
Board Member Stipend	14,250	15,000	15,000
Salaries	78,736	69,318	69,138
Legal Expenses	23,081	17,459	17,797
Medical Expenses	0	0	0
Travel Expenses	17,576	16,982	19,832
Administrative Expenses	91,612	56,474	45,646
Furniture and Equipment	0	8,836	5,201
Management Fees	221,792	175,458	182,960
Custodial Fees	25,904	25,018	32,127
Consultant Fees	<u>42,610</u>	<u>20,925</u>	<u>25,800</u>
Sub Total	<u>515,561</u>	<u>405,471</u>	<u>413,503</u>
TOTAL DISBURSEMENTS	<u>\$8,320,154</u>	<u>\$7,721,604</u>	<u>\$7,532,180</u>

Watertown Retirement System

INVESTMENT INCOME

**FOR THE THREE YEAR PERIOD BEGINNING JANUARY 1, 1998
AND ENDING DECEMBER 31, 2000**

	FOR THE PERIOD ENDING DECEMBER 31,		
	2000	1999	1998
Investment Income Received From:			
Cash	8478.63	33010.84	\$43,813
Short Term Investments	161,014	111,580	91,764
Fixed Income	1,377,718	1,204,688	1,412,567
Equities	206,449	148,234	295,875
Pooled or Mutual Funds	<u>143,314</u>	<u>121,473</u>	<u>363,983</u>
Commission Recapture	0	1,766	32,288
TOTAL INVESTMENT INCOME	<u>1,896,973</u>	<u>1,620,751</u>	<u>2,240,290</u>
Plus:			
Increase in Amortization of Fixed Income Securities	0	4,755	3,978
Realized Gains	3,067,291	3,480,112	2,379,111
Unrealized Gains	9,152,769	11,840,206	5,424,423
Interest Due and Accrued on Fixed Income Securities - Current Year	271,534	164,256	250,661
Sub Total	<u>12,491,594</u>	<u>15,489,330</u>	<u>8,058,174</u>
Less:			
Decrease in Amortization of Fixed Income Securities	0	(5,436)	(107,921)
Paid Accrued Interest on Fixed Income Securities	(479,802)	(71,424)	(251,449)
Realized Loss	(3,884,041)	(2,663,227)	(3,327,241)
Unrealized Loss	(9,118,538)	(1,981,331)	(3,475,991)
Interest Due and Accrued on Fixed Income Securities - Prior Year	(164,256)	(250,661)	(195,587)
Sub Total	<u>(13,646,636)</u>	<u>(4,972,079)</u>	<u>(7,358,189)</u>
NET INVESTMENT INCOME	<u>741,931</u>	<u>12,138,002</u>	<u>2,940,275</u>
Income Required:			
Annuity Savings Fund	279,608	276,602	277,020
Annuity Reserve Fund	198,047	191,904	192,741
Military Service Fund	515,561	405,471	413,503
Expense Fund	<u>172</u>	<u>176</u>	<u>187</u>
TOTAL INCOME REQUIRED	<u>993,388</u>	<u>874,153</u>	<u>883,451</u>
Net Investment Income	<u>741,931</u>	<u>12,138,002</u>	<u>2,940,275</u>
Less: Total Income Required	<u>993,388</u>	<u>874,153</u>	<u>883,451</u>
EXCESS INCOME TO THE PENSION RESERVE FUND	<u>(\$251,457)</u>	<u>\$11,263,849</u>	<u>\$2,056,824</u>

Watertown Retirement System

STATEMENT OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2000

	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS	PERCENTAGE ALLOWED*
Cash	\$405,237	0.61%	100
Short Term	851,088	1.27%	100
Fixed Income	18,478,402	27.68%	40 - 80
Equities	14,784,814	22.14%	50
Pooled Short Term Funds	0	0.00%	
Pooled Domestic Equity Funds	14,817,401	22.19%	
Pooled International Equity Funds	8,314,570	12.45%	
Pooled Global Equity Funds	0	0.00%	
Pooled Domestic Fixed Income Funds	0	0.00%	
Pooled International Fixed Income Funds	3,009,438	4.51%	
Pooled Global Fixed Income Funds	0	0.00%	
Pooled Alternative Investment Funds	1,575,000	2.36%	
Pooled Real Estate Funds	4,528,805	6.78%	
Pooled Domestic Balanced Funds	0	0.00%	
Pooled International Balanced Funds	0	0.00%	
PRIT Cash Fund	0	0.00%	
PRIT Core Fund	0	0.00%	100
GRAND TOTALS	<u>\$66,764,754</u>	<u>100.00%</u>	

* The book value differs from the market value for individually owned Fixed Income Securities which are valued at amortized cost which is the original cost of the investment plus or minus any bond discount or bond premium calculated ratably to maturity. All other investments are reflected at their quoted market value.

For the year ending December 31, **2000**, the rate of return for the investments of the **Watertown** Retirement System was 0.77%. For the five year period ending December 31, **2000**, the rate of return for the investments of the **Watertown** Retirement System averaged 11.67%. For the 16-year period ending December 31, **2000**, since PERAC began evaluating the returns of the retirement systems, the rate of return of the investments of the **Watertown** Retirement System was 10.90%.

Watertown Retirement System

SUPPLEMENTARY INVESTMENT REGULATIONS

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2000

The **Watertown** Retirement System submitted the following supplementary investment regulations, which were approved by PERAC on :

April 1, 2002

16.08 In accordance with Investment Guideline 99-2, the Watertown Retirement Board is authorized to modify its domestic fixed income mandate with Income Research & Management from a separate account structure to a commingled fund, the IRM Commingled Bond Fund. This change is intended to achieve operational efficiencies and involves no change in investment strategy.

July 26, 2000

16.08 In accordance with PERAC Investment Guideline 99-2, the Watertown Retirement Board may modify its investment contract with Hutchens Management Company to allow investment in mid cap equities. The board has had a satisfactory relationship with Hutchens as its domestic large cap manager. In recognition of Hutchens' strong performance results for mid cap equities, the Board believes that expanding its mandate to include mid caps is an appropriate way to achieve their asset allocation goals.

June 20, 1997

20.07(9) Commingled real estate shall not exceed 5% of the total book value of the portfolio at the time of purchase provided that:

- (a) the retirement board does not participate in the selection of personnel responsible for making real estate investments and should this be required, prior to any participation by the board, the board shall consult with PERA to determine the appropriate course of action;
- (b) such personnel retain authority in the decision making process, and
- (c) should an investment in real estate result in the direct ownership of real estate or mortgage indebtedness, such shall be permitted only until such time as divestiture is prudent.

October 12, 1995

840 CMR 21.00: Prohibited Investments

(3) Future Contracts other than as follows:

- a. Currency Futures, Calls and Forward Contracts may be written against securities in the international portfolio by an investment advisor registered under the Investment Advisors Act of 1940 and who has been granted a waiver from PERA for international investments.
- b. Currency Futures, Calls and Forward Contracts may be written against securities in the international portfolio to a maximum of fifty percent (50%) of the international portfolio's non-dollar holdings at market value. Speculative currency positions unrelated to underlying portfolio holdings are strictly prohibited.

October 18, 1994

20.03(1) Equity investments shall not exceed 50% of the portfolio valued at market, including international equities which shall not exceed 20% of the equity portfolio valued at market. Furthermore, international equity investments shall not exceed 10% of the entire portfolio valued at market.

Watertown Retirement System

SUPPLEMENTARY INVESTMENT REGULATIONS (Continued)

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2000

August 19, 1993

20.03(1) Equity investments shall not exceed 50% of the portfolio valued at market, including international equities which shall not exceed 10% of the equity portfolio valued at market.

20.04(1) United States based corporations and equities of foreign corporations

20.07(5) Equity investments shall be made only in securities listed on a United States stock exchange, traded over the counter in the United States, or listed and traded on a foreign exchange.

March 20, 1991

18.02(4) ***Rate of Return***. A Statement of the rate of return objective for the entire portfolio which shall be equal to or in excess of 8%.

20.03(1) Equity investments shall not exceed 50% of the total book value of the portfolio at the time of purchase.

October 5, 1989

(1) Real estate investments shall not exceed 5% of the total book value of the portfolio at the time of purchase and shall consist of real estate trusts and partnerships, provided that:

(a) trust participants or limited partners do not participate in the selection of trustees or general partners and should a trust participant or limited partner be required to participate in the selection of a trustee or general partner, prior to any participation by the board, the board shall consult with PERA to determine the appropriate course of action, and

(b) such trustees or general partners retain authority in the decision making process, and

(c) should an investment in a trust or limited partnership result in the direct ownership of real estate or mortgage indebtedness, such shall be permitted only until such time as divestiture of said trust or limited partnership is prudent.

October 27, 1986

20.07(9) Real estate investments shall not exceed 5% of the total book value of the portfolio at the time of purchase and shall consist of real estate trusts and real estate limited partnerships, provided that:

(a) trust participants or limited partners do not participate in the selection of trustees or general partners, and

(b) such trustees or general partners retain authority in the decision making process, and

(c) should an investment in a trust or limited partnership result in the direct ownership of real estate, such shall be permitted only until such time as divestiture of said trust or limited partnership is prudent.

March 18, 1986

20.07(6) Purchase and sales of equity investments shall not exceed 200% of the average market value of all equity holdings in any twelve month period.

Watertown Retirement System

NOTES TO FINANCIAL STATEMENTS

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2000

NOTE 1 - THE SYSTEM

The plan is a contributory defined benefit plan covering all **Watertown** Retirement System member unit employees deemed eligible by the retirement board, with the exception of school department employees who serve in a teaching capacity. The Teachers' Retirement Board administers the pensions of such school employees.

Instituted in 1937, the System is a member of the Massachusetts Contributory Retirement System and is governed by Chapter 32 of the Massachusetts General Laws. Membership in the plan is mandatory immediately upon the commencement of employment for all permanent, full-time employees.

The system provides for retirement allowance benefits up to a maximum of 80% of a member's highest three year average annual rate of regular compensation. Benefit payments are based upon a member's age, length of creditable service, level of compensation, and group classification.

Members become vested after ten years of creditable service. A superannuation retirement allowance may be received upon the completion of twenty years of service or upon reaching the age of 55 with ten years of service. Normal retirement for most employees occurs at age 65 (for certain hazardous duty and public safety positions, normal retirement is at age 55).

A retirement allowance consists of two parts: an annuity and a pension. A member's accumulated total deductions and a portion of the interest they generate constitute the annuity. The differential between the total retirement benefit and the annuity is the pension. The average retirement benefit is approximately 75 - 85% pension and 15 - 25% annuity.

Active members contribute either 5, 7, 8, or 9% of their gross regular compensation. Members joining the retirement system after January 1, 1979 must contribute an additional 2% on regular compensation earned at a rate in excess of \$30,000. The percentage rate is keyed to the date upon which an employee's membership commences. These deductions are deposited in the Annuity Savings Fund and earn interest at a rate determined by the Executive Director of PERAC according to statute. When a member's retirement becomes effective, his/her deductions and related interest are transferred to the Annuity Reserve Fund. Any cost-of-living adjustment granted between 1981 and 1997 and any increase in other benefits imposed by state law during that period are borne by the state.

The pension portion of any retirement benefit is paid from the Pension Fund of the System. The governmental unit employing the member must annually appropriate and contribute the amount of current year pension payments as indicated on the most recent funding schedule as approved by PERAC's Actuary. Until recently, retirement systems were paying only the actual retirement

Watertown Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2000

benefits that were due each year. Systems had no statutory authorization to put aside any money for the future benefits of employees who are now working. Large unfunded liabilities resulted from operating upon this pay-as-you-go basis. In 1977, legislation authorized local governments to appropriate funds to meet future pension obligations.

In 1983, additional legislation was passed requiring the transfer of investment earnings (in excess of the amount credited to member accounts) into the Pension Reserve Fund. These initiatives have significantly reduced the rate of growth of the retirement systems' unfunded liabilities, and in some systems have actually eliminated such liability.

Administrative expenses are funded through investment income of the system.

Members who become permanently and totally disabled for further duty may be eligible to receive a disability retirement allowance. The amount of benefits to be received in such cases is dependent upon several factors including: whether or not the disability is work related, the member's age, years of creditable service, level of compensation, veteran's status, and group classification.

Employees who resign from service and who are not eligible to receive a retirement allowance or are under the age of 55 are entitled to request a refund of their accumulated total deductions. In addition, depending upon the number of years of creditable service, such employees are entitled to receive either zero (0%) percent, fifty (50%) percent, or one hundred (100%) percent of the regular interest which has accrued upon those deductions. Survivor benefits are extended to eligible beneficiaries of members whose death occurs prior to or following retirement.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

The accounting records of the System are maintained on a calendar year basis in accordance with the standards and procedures established by the Executive Director of Public Employee Retirement Administration Commission.

The Annuity Savings Fund is the fund in which members' contributions are deposited. Active members contribute either 5, 7, 8, or 9% of their gross regular compensation. Voluntary contributions, redeposits, and transfers to and from other systems, are also accounted for in this fund. Members' contributions to the fund earn interest at a rate determined by PERAC. Interest for some members who withdraw with less than ten years of service is transferred to the Pension Reserve Fund. Upon retirement, members' contributions and interest are transferred to the Annuity Reserve Fund. Dormant account balances must be transferred to the Pension Reserve Fund after a period of ten years of inactivity.

Watertown Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2000

The Annuity Reserve Fund is the fund to which a member's account is transferred upon retirement from the Annuity Savings Fund and Special Military Service Credit Fund. The annuity portion of the retirement allowance is paid from this fund. Interest is credited monthly to this fund at the rate of 3% annually on the previous month's balance.

The Special Military Service Credit Fund contains contributions and interest for members while on a military leave for service in the Armed Forces who will receive creditable service for the period of that leave.

The Expense Fund contains amounts transferred from investment income for the purposes of administering the retirement system.

The Pension Fund contains the amounts appropriated by the governmental units as established by PERAC to pay the pension portion of each retirement allowance.

The Pension Reserve Fund contains amounts appropriated by the governmental units for the purposes of funding future retirement benefits. Any profit or loss realized on the sale or maturity of any investment or on the unrealized gain of a market valued investment as of the valuation date is credited to the Pension Reserve Fund. Additionally, any investment income in excess of the amount required to credit interest to the Annuity Savings Fund, Annuity Reserve Fund, and Special Military Service Credit Fund is credited to this Reserve account.

The Investment Income Account is credited with all income derived from interest and dividends of invested funds. At year-end the interest credited to the Annuity Savings Fund, Annuity Reserve Fund, Expense Fund, and Special Military Service Credit Fund is distributed from this account and the remaining balance is transferred to the Pension Reserve Fund.

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS

The **Watertown** Retirement System submitted the following supplementary membership regulations, which were approved by PERAC on:

April 9, 2001

Liability - The Board will not accept liability for service for noncontributing employment service requested by members of other retirement systems, unless the former employees were wrongfully excluded or omitted from membership in the Watertown Retirement System.

Watertown Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2000

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

August 18, 2000

Employment Service Rendered Under Federal Grants

After further review of the relevant provisions of G.L. c. 32, further review of recent administrative and judicial decisions rendered regarding membership and creditable service, and further review of prior determinations and promulgations of the Public Employee Retirement Administration Commission relative to recovery of pension costs from federal grants, the Watertown Retirement Board hereby adopts the following supplemental regulations.

1. Employees of a member unit of the Watertown Retirement System whose compensation is paid through a federal grant (e.g., CETA, EAP, Title I, LEAA,) and whose employment terms and conditions would otherwise qualify them for membership, are eligible for membership in the Watertown Retirement System.
2. Active members of the Watertown Retirement System who previously rendered service in a member unit but were excluded or omitted from membership in the Watertown Retirement System due solely to the federal source of payment of the employees' compensation, and whose employment terms and conditions would otherwise qualify them for membership in the Watertown Retirement System, are entitled to membership in the system retroactive to the date of such exclusion or omission, upon full and complete payment into the retirement system of the appropriate retirement contribution. Such members are entitled to the benefits of membership which were in effect at the time of such exclusion or omission.
3. Active members of the Watertown Retirement System who have rendered prior employment service in a non-member unit and whose compensation for such service was paid through a federal grant, are eligible to purchase creditable service for such prior employment service, if such prior employment service, if rendered in a member unit, would have been eligible to be purchased.

Watertown Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2000

NOTE 4 - ADMINISTRATION OF THE SYSTEM

The System is administered by a five person Board of Retirement consisting of the Town Auditor who shall be a member ex officio, a second member appointed by the governing authority, a third and fourth member who shall be elected by the members in or retired from the service of such system, and a fifth member appointed by the other four board members.

Ex officio Member: Thomas J. Tracy

Appointed Member: James I. Bean Term Expires: Indefinite

Elected Member: Thomas V. Thibaut Term Expires: 10/15/02

Elected Member: Robert E. Ford Term Expires: 10/15/04

Appointed Member: Wayne MacDonald Term Expires: 01/31/03

The Board members are required to meet at least once a month. The Board must keep a record of all of its proceedings. The Board must annually submit to the appropriate authority an estimate of the expenses of administration and cost of operation of the system. The board must annually file a financial statement of condition for the system with the Executive Director of PERAC.

The investment of the system's funds is the responsibility of the Board. All retirement allowances must be approved by the Retirement Board and are then submitted to the PERAC Actuary for verification prior to payment. All expenses incurred by the System must be approved by at least two members of the Board.

The following retirement board members and employees are bonded by an authorized agent representing a company licensed to do business in Massachusetts as follows:

Treasurer - Custodian:)	
Ex officio Member:)	\$1,000,000/\$30,000,000
Elected Member:)	MACRS Policy
Appointed Member:)	
Staff Employee:)	

Watertown Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2000

NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by **PricewaterhouseCoopers** as of **January 1, 2001**.

The actuarial liability for active members was	\$42,069,465
The actuarial liability for retired and inactive members was	<u>58,806,816</u>
The total actuarial liability was	100,876,281
System assets as of that date were	<u>66,804,435</u>
The unfunded actuarial liability was	<u>\$34,071,846</u>
The ratio of system's assets to total actuarial liability was	66.2%
As of that date the total covered employee payroll was	\$19,379,204

The normal cost for employees on that date was 8.00% of payroll

The normal cost for the employer was 4.20% of payroll

The principal actuarial assumptions used in the valuation are as follows:

Investment Return: 8.00% per annum

Rate of Salary Increase: 5.00% per annum

GASB STATEMENT NO. 25, DISCLOSURE INFORMATION AS OF JANUARY 1, 2001

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Cov. Payroll ((b-a)/c)
1/1/2001	66,804,435	100,876,281	34,071,846	66.2%	19,379,204	175.82%
1/1/2000	67,485,797	93,900,795	26,414,998	71.9%	18,231,939	144.88%
1/1/1999	56,172,432	90,052,933	33,880,501	62.4%	15,732,197	215.36%

Watertown Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2000

NOTE 6 - MEMBERSHIP EXHIBIT

Retirement in Past Years	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Superannuation	13	12	41	3	8	8	14	12	5	15
Ordinary Disability	0	1	0	0	1	0	0	0	0	1
Accidental Disability	1	1	1	2	2	0	0	0	1	1
Total Retirements	14	14	42	5	11	8	14	12	6	17
Total Retirees, Beneficiaries and Survivors	468	482	522	484	487	476	478	471	466	463
Total Active Members	676	676	651	479	492	515	477	541	538	534
Pension Payments										
Superannuation	\$2,427,269	\$2,809,407	\$3,322,177	\$3,338,923	\$3,346,874	\$3,274,589	\$3,606,975	\$3,586,946	\$3,580,175	\$3,986,891
Survivor/Beneficiary Payments	285,768	317,302	315,405	322,750	317,135	348,080	373,957	378,622	409,219	441,610
Ordinary Disability	141,946	135,062	142,740	144,033	154,412	146,135	145,583	146,167	147,038	148,229
Accidental Disability	1,418,600	1,625,657	1,529,042	1,544,958	1,535,335	1,464,481	1,531,351	419,113	444,209	464,085
Other	<u>387,480</u>	<u>522,988</u>	<u>505,152</u>	<u>530,580</u>	<u>547,278</u>	<u>622,161</u>	<u>660,387</u>	<u>239,929</u>	<u>241,916</u>	<u>249,790</u>
Total Payments for Year	<u>\$4,661,063</u>	<u>\$5,410,416</u>	<u>\$5,814,516</u>	<u>\$5,881,244</u>	<u>\$5,901,034</u>	<u>\$5,855,446</u>	<u>\$6,318,253</u>	<u>\$4,770,777</u>	<u>\$4,822,556</u>	<u>\$5,290,604</u>